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The Manufacturers Hanover
# Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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## The Recovery Is Solidly On Track . . .

The third quarter's downshift in the pace of business activity has many observers believing that the economy is about to slip into recession—if it hasn't already. But while the slowdown was steeper than expected, due in part to the United Auto Workers' strike, there is plenty of life left in the two-year-old recovery, and the economic expansion is still solidly on track. The index of leading economic indicators turned up in September, capital spending intentions are strong, and the U.S. and Canadian automobile strikes have been settled. What is more, the recent decline in money market rates should soon give a boost to such interest-sensitive industries as housing and durable goods, while consumer attitudes are brightening just in time for the Holiday shopping season.

While the unemployment rate in October was unchanged from September's 7.4 percent of the labor force, this top-line number masked several favorable developments in the employment situation. For one thing, there was a substantial rise in the number of people employed. The household survey revealed a 350,000-worker rise last month, while nonagricultural businesses posted a 440,000 gain in payroll employment. For another, the number of jobless decreased by 30,000 over the month, making it the twelfth decline in the past 14 months.

The gains in employment were widespread last month, with nearly two-thirds of the industries monitored by the Bureau of Labor Statistics posting increases. But as has been the case since the start of this recovery, most of October's job increases occurred in the service industries. The gains in manufacturing employment were much more subdued; the overall rise was only 55,000.

## . . . As The Employment Situation And . . .

To be sure, employment in the service-producing sector was virtually unchanged throughout the recession. By contrast, manufacturing industries have regained only 70 percent of the jobs lost in the recession—a typical development for this stage of the recovery. Of the major industries, employment in the electrical machinery, rubber and plastics, motor vehicles, lumber and wood products and furniture and fixtures industries has surpassed July, 1981 levels. At the other side of the spectrum are the chemical, textile and primary metals industries, which have regained less than 20 percent of lost jobs—while the petroleum and coal and leather industries are still paring their payrolls.

Nevertheless, the entry of 320,000 persons into the labor force shows people's confidence in the health of the economy. Generally, people enter the job market when they believe that business conditions are improving. This is underscored by the findings of the Conference Board's October consumer confidence survey. It showed that the number of people expecting business conditions to improve in the near term rose to the highest level since last April, when the economy was expanding briskly. And with an improved economy, people believe their employment and financial prospects will brighten, too. As a result, consumers now plan to step up spending on new and used cars, carpeting and such home appliances as televisions, vacuum cleaners and washing machines and dryers.

## . . . Consumer Financial Prospects Improve . . .

A rosy consumer outlook is a necessary ingredient for a successful Holiday shopping season. And although sales patterns have been turbulent in many parts of the country in the past several months, in September and October, non-auto retail sales ran well above the strong levels of a year ago. For example, despite unseasonably warm weather in October—which stifled purchases of winter merchandise—18 major department stores reported a nearly ten percent rise in sales, year-over-year. This is a healthy gain, especially in view of the current low inflation environment. September's consumer price index for retail goods was only 2.9 percent higher than a year ago.

The summer lull in consumer spending has significantly improved consumers' financial health. While buyers tightened their purse strings, personal income rose by an 8.4 percent annual rate in the third quarter compared with the second, about even with the average quarterly gain for this expansion. In addition to a good-sized gain in wages and salaries, interest and dividend incomes expanded at a

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fast clip. As a result, the personal savings rate rose from 5.7 percent of disposable personal income in May to 6.3 percent by August.

Despite this improvement, October's overall retail sales figures were probably subdued. This is because domestic car sales for the month slumped below seven million units at a seasonally adjusted annual rate, reflecting severe shortages of popular models. Although the UAW strikes in the U.S. and Canada did not last all that long, they depressed auto and truck production by about 200,000 units in September and October. Currently, the inventory of domestic cars stands at about 51 days' supply—substantially below levels considered normal by the industry. Stocks of certain hot-selling models have thinned to only about 20 days' supply—which means that in many parts of the country, buyers must wait weeks for delivery.

### . . . And Interest Rates Decline

Sparked by only a modest easing in mortgage interest rates, sales of new homes in September soared nearly 22 percent, month-over-month the sharpest monthly rise in more than four years. Thus, new home sales returned to the levels of last March and were 14 percent higher than a year ago. At the same time, housing starts

## Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

| | Week Ending 11/7/84 | $ Change Since Week Ago | $ Change Since Year Ago |
|---|---|---|---|
| Reserve Bank Credit | | | |
| U.S. Gov't s and Agencies Owned Outright & RPs | 161.071 | + 3.135 | + 7.543 |
| Loans to Depository Inst. | 5.561 | + .374 | + 4.519 |
| Float | .225 | – .344 | – 1.838 |
| Total Reserve Bank Credit | 179.406 | + 3.255 | +13.662 |
| Treasury Deposits with Federal Reserve Banks | 3.191 | – .612 | + .284 |
| Currency in Circulation | 177.009 | + 1.145 | +11.019 |
| Gov't s held for Foreign Acct. by F.R. Banks (End-of-Week) | 118.367 | – .866 | + 6.235 |
| | **11/7/84** | | |
| Member Bank Reserves: | | | |
| Total Reserves Held | 38.054 | + .187 | + 3.358 |
| Excess (Deficiency) | .715 | + .251 | + .135 |
| Net Borrowed Reserves | .744 | + .835 | + .407 |
| | | % Change Since Three Months Ago* | % Change Since Year Ago |
| Monetary Aggregates† | | | |
| M1 (10/29/84) | 544.1 | + 0.2‡ | + 4.7‡ |
| M2 (September '84) | 2,306.7 | + 6.1 | + 7.4 |
| M3 (September '84) | 2,891.3 | + 7.3 | + 9.6 |
| Domestic Nonfinancial Debt (2nd Q'84) | 5,589.6 | + 12.9 | + 12.4 |

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡ Four-week moving average.

## New York Money Market

| Offering Rates 11/9/84 | 3 Months | 6 Months | 1 Year |
|---|---|---|---|
| ‡ U.S. Treasury Bills | 8.60% | 8.90% | 9.05% |
| * Federal Agencies | 9.05 | 9.30 | 10.40 |
| * Project Notes–Taxfree (46% Taxable Equivalent) | 9.91 | 10.09 | NA |
| Negotiable Time CDs Manufacturers Hanover | Rates By Arrangement | | |
| * Secondary Market–Prime | 9.28 | 9.52 | 10.00 |

‡ Finance Company Paper–Prime

| | |
|---|---|
| 5- 14 days | 9.25% |
| 15- 29 days | 9.25 |
| 30- 59 days | 9.25 |
| 60- 89 days | 9.25 |
| 90-179 days | 9.25 |
| 180-239 days | 9.25 |
| 240-270 days | 9.25 |

‡* Bankers' Acceptances

| | |
|---|---|
| Dec. | 9.35% |
| Jan. | 9.35 |
| Feb. | 9.35 |
| Mar. | 9.35 |
| Apr. | 9.35 |
| May | 9.35 |

‡ Industrial Paper–Prime

| | |
|---|---|
| 30- 89 days | 9.00% |
| 90-120 days | 8.90 |

†Federal Funds Effective Rate 9.50%

‡ Discount basis. * Subject to availability. † Estimated.

## Selected Business Indicators

(All Dollar Figures in Billions)

| | Latest Period or End of Period | | Previous Period | Year Ago Period |
|---|---|---|---|---|
| Gross National Product (Current Dollars)* | 3rd Q'84 | $ 3,701 | $ 3,645 | $ 3,347 |
| Gross National Product (1972 Dollars)* | 3rd Q'84 | $ 1,650 | $ 1,639 | $ 1,550 |
| Percent Change, Annual Rate | 3rd Q'84 | 2.7 | 7.1 | 6.8 |
| Change in Consumer Prices (new series)* | Sep '84 | 4.8% | 6.0% | 4.8% |
| Change in Producer Prices* | Oct '84n | – 2.4% | – 2.4% | 2.4% |
| Civilian Employment (Thousands of Persons)† | Oct '84 | 105,586 | 105,239 | 101,970 |
| Unemployment as % of Civilian Labor Force† | Oct '84 | 7.4% | 7.4% | 8.8% |
| Personal Income* | Sep '84 | $ 3,071 | $ 3,045 | $ 2,785 |
| Leading Indicators Composite Index (1967=100)† | Sep '84 | 164.6 | 164.0 | 160.0 |
| Industrial Production Index (1967=100) † | Sep '84 | 165.1 | 166.1 | 153.8 |
| Net Change in Consumer Installment Credit † | Aug '84 | $ 6.00 | $ 7.11 | $ 4.09 |
| U.S. Merchandise Trade Balance † | Sep '84 | –$ 12.65 | –$ 9.86 | –$ 6.22 |
| Plant and Equipment Expenditures* | 4th Q'84 | $318.33(a) | $316.22(a) | $283.96 |
| Private Housing Starts (Thousands of Units)* | Sep '84 | 1,676 | 1,539 | 1,679 |
| New Construction Expenditures* | Sep '84 | $ 315.3 | $ 311.9 | $ 281.7 |
| Total Business Inventories † | Aug '84 | $ 556.0 | $ 551.4 | $ 504.3 |
| Total Business Sales † | Aug '84 | $ 410.7 | $ 411.4 | $ 373.3 |

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

jumped 8.9 percent in September compared with August. But while future increases may not be as dramatic in the coming months, the outlcok for residential building continued to improve in October. The Federal Home Loan Bank Board reports that fixed-rate mortgages of 25 years or longer have come down from July's 15.2 percent to less than 14¾ percent in October. More recent surveys reveal that by the end of last month, rates had descended another one-half of a percentage point. This is significant for the potential homebuyer of a median-priced home, since every one percentage point decline saves about $50 per month.

Finally, there is another source of strength. Business has maintained a fairly low level of inventories relative to sales. In most industries, stocks are at one of their lowest levels relative to sales in the postwar era, taking out the effects of inflation. With consumer spending rising once again, and the important Holiday shopping season rapidly approaching, many businesses will be adding stocks—fueling further the pace of economic activity. Already in September, new orders for nondefense capital goods posted a good-sized four percent rise, month-over-month, despite a sharp 13 percent drop in orders for transportation equipment. H

## Short Term Paper Outstanding
(Millions of Dollars)

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **Time Deposits of $100,000 or more Weekly Reporting Banks** | | | |
| Nationwide (10/24/84) | 160,574 | + 495 | +16,992 |
| New York City (10/31/84) | 33,835 | – 343 | + 2,857 |
| **Commercial Paper** (10/31/84) | 230,525 | – 1,353 | +51,431 |

## Bank Loans
(Millions of Dollars)

**Commercial and Industrial Loans**

| Weekly Reporting Large Commercial Banks | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/24/84) | 245,894 | + 291 | +28,869 |
| New York City (10/31/84) | 64,021 | – 267 | + 6,063 |

**Total Loans and Leases Gross Adjusted**

| | Latest Week | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| Nationwide (10/24/84) | 630,067 | + 2,567 | +93,312 |
| New York City (10/31/84) | 143,297 | + 2,022 | +20,278 |

## Financial Markets

| | Friday 11/9/84 | Change Since Week Ago | Change Since Year Ago |
|---|---|---|---|
| **U.S. Governments, Closing Yields:** | | | |
| 90-Day Bills† | 9.00% | – .28 | – .05 |
| 180-Day Bills† | 9.51 | – .20 | + .03 |
| Longest Bills† | 9.97 | – .12 | + .15 |
| **Recent Issues:** | | | |
| 11⅝s 10/31/86 | 11.10 | + .23 | |
| 11⅜s 9/30/88 | 11.48 | + .08 | |
| 12⅝s 8/15/94 | 11.77 | + .16 | |
| 12½s 8/15/14 | 11.67 | + .20 | |
| **Municipals:** | | | |
| Bond Buyer–20 Bond Index* (11/8/84) | 10.17% | + .06 | + .42 |
| Blue List Total ($ Million) | $1,732 | –$ 133 | + $ 301 |
| 30-Day Visible Supply ($ Million) | $3,450 | +$1,673 | + $1,225 |
| Total | $5,182 | +$1,540 | + $1,526 |
| **Corporates:** | | | |
| Moody's Aa Composite (11/8/84) | 12.78% | –0– | + .12 |
| 30-Day Visible Supply ($ Million) | $5,007 | +$3,272 | + $3,257 |
| **Stocks:** | | | |
| **Dow-Jones Averages:** | | | |
| Industrials | 1,218.97 | + 2.32 | – 16.90 |
| Transportation | 532.43 | + .11 | – 58 |
| Utilities | 145.77 | + 1.95 | + 9.06 |
| 65 Stocks | 483.75 | + 1.54 | – 14.26 |
| **Standard and Poor's 500 Stocks** | 167.60 | + .18 | + 3.19 |
| **N.Y.S.E. Composite Index** | 96.73 | + .22 | + 1.98 |
| **N.Y.S.E. Avg. Daily Vol. for Week (000's)** | 93,946 | + 2,884 | + 17,264 |

* 46% Taxable equivalent 18.83%.

† Bond equivalent.

## International Rates

| EURODOLLAR DEPOSIT RATES (bid) | Friday 11/9/84 | Week Ago |
|---|---|---|
| Overnight | 9.38% | 10.25% |
| 1 month | 9.50 | 9.81 |
| 3 month | 9.81 | 10.06 |
| 6 month | 10.06 | 10.19 |
| 1 year | 10.63 | 10.69 |
| **EURODOLLAR BONDS** | | |
| **Average Yield** | | |
| Medium Term (5 to 7 yrs.) | 12.00% | 12.00% |
| Long Term (7 to 15 yrs.) | 12.00 | 12.10 |

**FOREIGN EXCHANGE SPOT RATES**

| New York Opening (11/9/84) | U.S. $ Equivalent | Currency Per U.S. $ |
|---|---|---|
| Belgium | .01668 | 59.96 |
| Canada | .7589 | 1.3177 |
| Denmark | .09400 | 10.6380 |
| France | .1099 | 9.0965 |
| Germany | .3373 | 2.9650 |
| Italy | .0005420 | 1845.00 |
| Japan | .004136 | 241.78 |
| Mexico | .004785 | 209.00 |
| Netherlands | .2993 | 3.3410 |
| Switzerland | .4128 | 2.4223 |
| U.K. | 1.2575 | .7952 |

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